

## **Expected increase in insolvencies suggests a worsening global economy** Credit insurers concerned about potential end of trade multilateralism

**Amsterdam / London, 27<sup>th</sup> March 2019 - In their latest joint annual state of the industry survey, members of the International Union of Credit and Investment Insurers (Berne Union) and the International Credit Insurance and Surety Association (ICISA) foresee growth in insured trade for 2019. This outlook is countered by a negative development in insolvencies for almost all regions, driven by macro-economic and political concerns.**

### Short-term trade credit insurance

The trade credit insurance members of the Berne Union and ICISA anticipate an increase in insured trade matched by an increase in insolvencies for 2019. Growth in insured trade is especially expected in Asia and Sub-Saharan Africa, while an increase in insolvencies is mainly expected in the MENA region and Asia. Several members have already observed a rise in the frequency and severity of claims.

The respondents foresee a significant worsening of the risk environment, and the possibility of a recession coupled with higher expected levels of default. 85% of respondents think commercial risks are increasing and 75% of respondents think political risks are becoming more prevalent, driven by concerns about risks such as Brexit and trade wars. Automation and digitalisation of trade documentation are considered to be the greatest opportunities in the short term. Vinco David, Secretary General of the Berne Union comments that “political risk is clearly back. This is not only due to the impact of armed conflict – such as in the MENA region, Ukraine and Venezuela, but also due to more recent trade conflicts, which put the careful balance of multilateralism at risk. With considerably higher custom tariffs, e.g. in the US or China, some exporters are faced with difficulties if they cannot relocate to other markets or adjust their global supply chains.”

Automobile & transportation manufacturing, and to a lesser degree construction are the sectors that are viewed as most likely to see a fall in underwritten volumes. A more positive outlook is given to product manufacturing and pharmaceutical & medical products. Electronics and pharmaceutical & medical products are considered most likely to see reductions in insolvencies. Construction and automobile & transportation manufacturing are considered likely to see a significant increase in insolvencies.

After many years of very soft market conditions, the markets in Asia and Europe are expected to move towards more neutral territory. “The forecast for the coming months is that price developments remain soft despite the clouds on the horizon. The current claims outlook is perceived not to be negative enough for a tipping point. Disruptive political developments in the world economy, such as Brexit and trade wars, might change this” comments Patrice Luscan, President of ICISA.

### Medium and long-term export credits

Insurers of medium and long-term export credit, mainly for capital goods and infrastructure, also reported positive expectations for new business, against a background of increasing commercial and political risks.

They anticipate increases in new business through the course of this year, with over 90% expecting an overall increase in exposure by year end. Deal pipelines for developing markets in Sub-Saharan Africa and Asia stand out with the highest growth expectations, while Latin America may see an overall reduction in new commitments.

Renewable energy is the leading sector for expected growth of new business, with 60% of respondents expecting significant increase in demand, and a healthy supply of good projects. They cite strong demand, especially from Eastern Europe, as well as favourable policies directed at imports of renewable energy equipment in some countries. Continued demand for cover is also expected in traditional energy, transport, manufacturing and infrastructure, but here there is also an indication of possible claims on the horizon.

In contrast to this generally positive picture for the insurance of export finance, members reported significant concerns about trends impacting the underlying economic environment. The slowing global economy and fear of a possible recession top the list.

Despite this, insurers see opportunities to improve awareness and use of non-payment insurance with support from banking partners and through increasing collaboration between public and private insurers. Berne Union President Beatriz Reguero comments that “The business of export credit and investment insurers is especially sensitive to events in the global economy. Both a benign economic climate, as we have had over the last few years, and more difficult times, as we expect, can bring opportunities and challenges at the same time. Our role is to support exporters and investors to ensure that trade continues in *all* environments.”

### Surety bonds

The majority of ICISA’s surety members (80%) expect an increase in the demand for surety bonds in 2019, especially in Latin America and North America. While the outlook for claims in the Americas is relatively positive, the same cannot be said of Europe and Asia where claims are expected to pick up. Generally speaking, the rise in the demand for surety bonds is perceived to exceed the rise in claims, indicating a positive outlook for the surety market.

The surety markets in all regions are currently considered to be soft. Europe is expected to harden slightly, while especially Asia and to a lesser extent Latin America are expected to soften further.

Rob Nijhout, Executive director of ICISA comments: “Demand for surety bonds will continue to grow in line with increased need for construction and spending on infrastructure projects. Recent failures of construction companies (e.g. Carillion) enhanced the awareness of the value of surety bonds, particularly in public works.”

**Note to the editor**

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**About ICISA**

The International Credit Insurance & Surety Association (ICISA) brings together the world's leading companies that provide trade credit insurance and/or surety bonds. Founded in 1928 as the first trade credit insurance association, the current members account for 95% of the world's private trade credit insurance business. Today, with almost USD 3 trillion in trade receivables insured and billions of dollars worth of construction, services and infrastructure guaranteed, ICISA members play a central role in facilitating trade and economic development on all five continents and practically every country in the world.

*For more information on ICISA, please visit [www.icisa.org](http://www.icisa.org)*

**About the Berne Union**

The Berne Union is the international association of export credit and investment insurers. The 84 members include government-backed export credit agencies, private credit and political risk insurers and multilateral agencies from 73 countries – representing all aspects of the industry worldwide. Members collectively provide payment risk protection equivalent to approximately 13% of annual world trade, compensating banks and exporters for losses suffered due to defaults by buyers or other obligors and providing flexible risk capacity to support international trade transactions.

*For more information on the BERNE UNION, please visit [www.berneunion.org](http://www.berneunion.org)*